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JAPAN REPORT

No. 169

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ECONOMIC

JAPAN TO LIMIT CAR EXPORTS TO U.S., CANADA

OW151101 Tokyo KYODO in English 1026 GMT 15 Feb 83

[Text] Tokyo, 15 Feb (KYODO)--Japan told Canada Tuesday its auto exports in the first six months of this year will be less than 79,000 units, down from 90,000 units in the same period a year ago but up from 63,000 units during the preceding half-year period.

A Ministry of International Trade and Industry spokesman said Japan hopes to reach an agreement on the proposed quota with Canada during forthcoming talks whose schedule has not been set yet.

The notification followed last week's top-level meetings between MITI Minister Sadanori Yamanaka and his Canadian counterpart Gerald Regan in Tokyo.

The move put to an end the dispute over an agreeable quota for fiscal 1982 during which Japan had insisted on exporting 174,000 units but Canada wanted to hold down to below 146,000, a ministry official explained.

The ministry had told the Canadians it will resume auto talks as soon as it settled a similar car dispute with the United States.

MITI's Yamanaka announced earlier in the day the country's decision to keep car shipments to the U.S. below 1.68 million units in fiscal 1983, extending the current auto export restraint pact to a third year.

The Japanese apparently proposed the car quota for the January-June period this year after taking into account a drop in auto sales in Canada from 905,000 in 1981 to around 710,000 last year.

Yamanaka promised Regan during their consultations that Japan's passenger car exports this year will be "moderate."

Car sales in Canada in 1983 are estimated to total 750,000 to 840,00, according to MITI officials familiar with the Canadian auto industry. The Ottawa government temporarily limited Japanese car exports last year to express its displeasure but later lifted its import restrictions.

CSO: 4100/121

ECONOMIC

ARTICLE REVIEWS ECONOMIC PROJECTIONS FOR 1983

Tokyo SHUKAN DAIYAMONDO in Japanese 22 Jan 83 pp 28-32

[Article: "Divergent Economic Projections for 1983; Spread of From 1.8 to 4.1 Percent on Growth Projections; 1982 Might Even Be Below 3 Percent Level"]

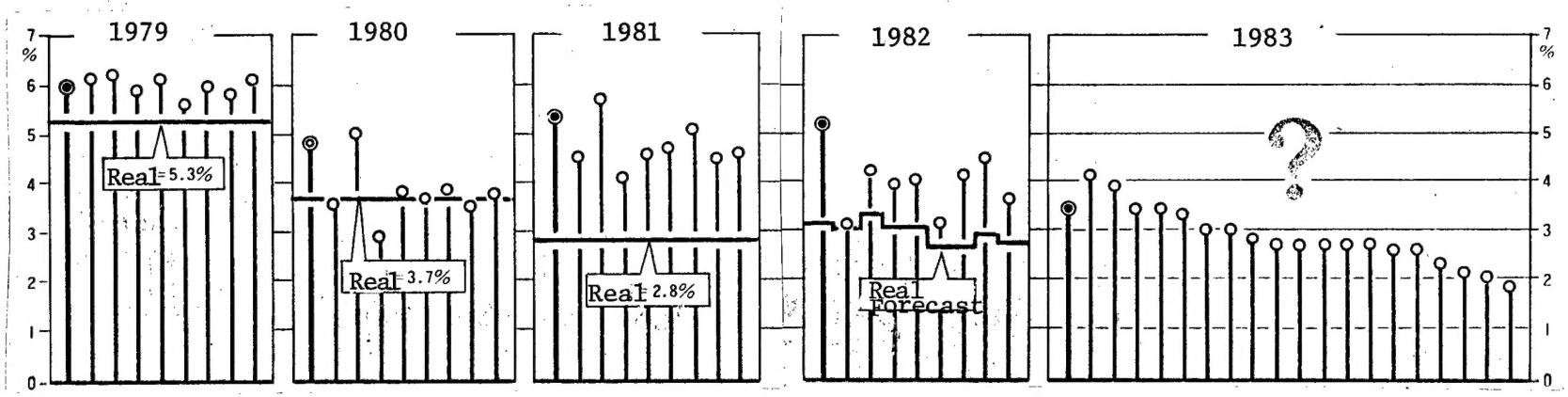
[Text] The state of the economy when viewed through the index of industrial production figures shows a definite flattening. The first quarter of 1982 compared to the same period of 1981 showed a gain of 3.6 percent, the second quarter a 1.5 percent gain and the third quarter only 1.0 percent. While small, they were nevertheless gains but in October-November of the fourth quarter it suddenly dropped 2.4 percent. As a result the employment situation deteriorated, with a total of 1.37 million persons unemployed in November 1982 maintaining a high 2.36 percent unemployment ratio. The situation is expected to worsen considerably with the onset of the normally bleak year-end employment season.

When viewed from the demand side, the repercussions from the decreased exports are great. Monthly customs clearance totals for February through November 1982 all registered minus levels in comparison to similar months of 1981. The decreased exports were noted in the major consumer products of electrical goods, autos and iron and steel. This decrease brought about a standstill in production and thus reflected on capital investments and consumer purchases which all added up to a general decrease in demand.

Statistics on machinery orders, an indicator of future capital investments, in the latest 3 month period from August-October 1982 showed a 6.1 percent decrease compared to similar periods of 1981. The retail sales indicator, the representative personal consumption indicator, also showed a 2.5 percent decrease.

Reflecting this stagnation in the economy the 1982 real growth rate (GNP compared to previous year) which had been projected by the government to reach 5.2 percent was revised downward in the fall to 3.4 percent and in the current forecast has been further revised to 3.1 percent. Recent economic conditions, however, would indicate that there is a strong possibility that the 3 percent line also may not be held. More than half of the nongovernmental and financial institutions are looking at a growth rate in the 2 percent range (see chart).

Graph 1. Comparison of Real and Projected Economic Conditions



Government, Mitsubishi Research, Kokumin Economic Research, Nomura Research, Nikko Research Kyoto Economic Research, Nikkei Center, Sanwa Bank, Sumitomo Bank.

(Note) Real economic growth rate. Real means values before adjustments. The 1982 forecasts are those of the individual investigative bodies.

Government, Mitsubishi Research, Kangyo Kakumaru Economic Research, Kokumin Economic Research, Daiwa Economic Research, Nomura Research Daiwa Bank, Yamaichi Research, Nikko Research, Kyoto Economic Research, Nikkei Center, Sanwa Bank, Tokai Bank, Wako Research, Nippon Life Insurance, Asahi Life Insurance, Electrical Power Central Research, Mitsui Bank, Sumitomo Bank, Dai-Ichi Kangyo Bank

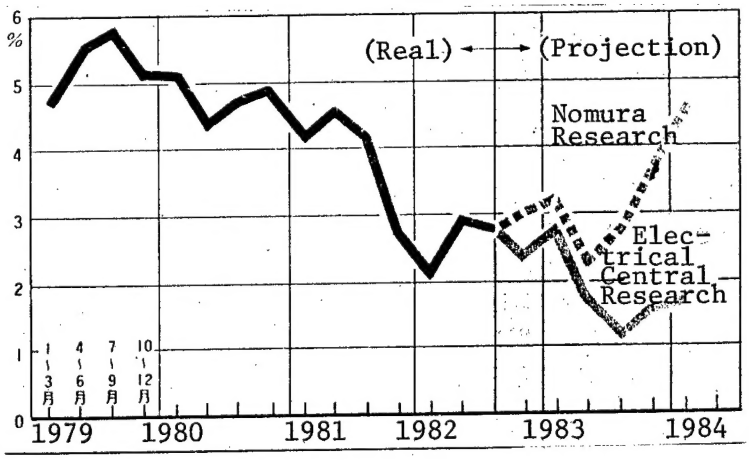
Divided Into Bulls and Bears

According to national income statistics revised in December 1982 the real 1979 growth rates of 5.3 percent decreased on an annual basis to 4.5 percent in 1980 and 3.3 percent in 1981. It is expected to fall still further in 1982. All the more reason to search for enlightening news in 1983. However, all of the announced economic forecasts, including the 3.4 percent government forecast, are divided into bulls and bears.

The most bullish forecast is by Mitsubishi Research with 4.1 percent, others in the 3 percent range are Kangyo Kakumaru Economic Research with 3.9 percent, the government, the Kokumin Economic Research and Daiwa Economic Research all forecast 3.4 percent. Nomura Research says 3.3 percent, while Daiwa Bank, Yamaichi Securities and Mitsubishi Trading forecast 3.0 percent. In contrast to this, the most bearish forecast is by Dai-Ichi Kangyo Bank with 1.8 percent and in the 2 percent range, Sumitomo Bank says 2.0 percent, Mitsui Bank 2.1 percent, Electrical Power Central Research 2.3 percent, Marubeni 2.4 percent, C. Itoh Trading, Nippon Life Insurance and Asahi Life Insurance all say 2.6 percent. Kyoto University Economic Research, the Nikkei Center, Sanwa Bank, Tokai Bank and Wako Economic Research all say 2.7 percent while Fuji Bank and Nikko Research forecast 2.8 percent and Mitsui Bussan 2.9 percent.

Generally, this forecast is an unexpectedly low one for the past several years (see Graph 1). Individually, between Mitsubishi Research's high of 4.1 percent and Dai-Ichi Kangyo Bank's 1.8 percent, there is a spread of 2.3 points and if we divide 1983 into the first and second halves, given the split of forecasts into over 3 percent and under 2 percent categories, the difference in the latter half of the year can likely become quite large. (see Graph 2).

Graph 2. Two Views on Real Growth Rates
(GNP against previous year for same period)



The Bull Thesis Is That the Latter Half of the Year Will Show a Growth Near 5 Percent

Looking at the background of the bullish forecast using Mitsubishi Research as a model "The economy will gradually turn upward as the industrialists regain their vitality following the domestic and external adjustments in policy and revitalization of foreign economies which occurred in 1982." Specifically they point to the following factors.

(1) U.S. economic policy will shift from inflation control to the unemployment problem and the trend toward lowering interest rates will be pronounced. World economic conditions will take on a brighter outlook and trade will climb from the minus 1.8 percent of 1982 to 7.8 percent in 1983. (2) Domestically the official discount rate currently at 5.5 percent will drop to 5.0 percent in January and 4.75 percent in May. From the fiscal standpoint there will be a 500 billion yen reduction in income taxes so a reduction in investment taxes can also be expected. (3) A yen rate increase can be expected, and a general brighter future outlook for industry and an improvement in profits of import related industries are all expected.

Actual demands reflect the recent trend away from "material things" and so the tertiary industrial sector and services continue to show good growth, and this in turn establishes a pattern of leading the recovery in terms of consumer purchases, investments and employment. The 1983 domestic demand increase in real terms is expected to be 3.7 percent in consumer goods, 3.3 percent in private sector capital investments, 3.6 percent in government investments a much higher level than other forecasts.

The Kokumin Economic Research, Daiwa Economic Research and Nomura Research despite a low 3 percent forecast on real growth foresee a gradual tail-end rising of the economy in the latter half of 1983. In the case of Nomura Research whose forecast is a real growth rate of 3.3 percent, when split into semiannual periods, the first half is at an annual rate of 3.7 percent (the latter half of 1981 was 1.3 percent) and the latter half is at an annual rate of 4.5 percent. This is a considerably higher rate during the second half. (The Daiwa Research forecast is 3.2 percent in the first half and 4.7 percent in the second.)

(1) A growing worldwide tendency to stimulate economic activity, (2) Domestically an increase in commodities due to high yen rate to maintain a price stability, (3) Official discount rate lowered to the 4 percent range which has given impetus to housing starts and capital investment, are the reasons given. In the past 2 years of 1981 and 1982 the Japanese economy has been one of growth in the first half and decline in the second half of each year; 1981 first half 4.1 percent growth, .7 percent in the second half. In 1982, 5 percent in the first half and 1.3 percent in the second half according to estimates by Nomura Research). The year 1983 represents the proverbial "what happens twice will likely happen a third time" year.

The government's outlook in real terms is spelled out at 3.4 percent and Economic Planning Agency Director Shiozaki after announcing the economic forecast said "Our country's economy is on the road to recovery and 1983 will turn

out to be good in the end." The personal consumer consumption set at a very high 3.9 percent and a 2.9 percent increase in private sector capital investment all point to expectations of domestic demand which in turn hinges on a revitalizing of economy.

Serious Concern for Trade Friction and Fiscal Tightening

In contrast to this the representative bearish forecast is by Dai-Ichi Kangyo Bank, "The 1983 forecast is 1.8 percent down from the 1982 forecast of 2.7 percent and both the first and second halves will show low growth only in the 2 percent range." The major basis for their forecast is in the following.

(1) The world economy will, under the lead of the United States, move toward recovery but the movement will be sluggish. High unemployment will continue in the advanced industrial countries and due to the increase in protectionism the growth of our country's exports will be held to about 2 percent. (2) Domestically, a drop in wage increases and a continued postponement of income tax decrease for the sixth year will cause continued sluggishness in the consumer sector which will definitely weaken the growth posture. (3) The government policy to stimulate the economy has so many conditions attached that drastic measures are difficult to undertake. Increase of the national debt cannot be avoided in the fiscal sector. Because of these pressures on the financial markets and the "creeping increase" of U.S. interest rates since summer, it is unrealistic that there will be any lowering of the official discount rate. In all aspects they are directly opposite the bulls in viewing the economy.

Sumitomo Bank is also forecasting that "due to inventory adjustments, possibly in early 1983 there will be a sense of bottoming out in the economy. However, because the basic restraints of export flatness and fiscal retrenchment still remain, and with capital and employment adjustments continuing, the general state of stagnation is expected to continue. The real growth rate will be about 2 percent near the 1981 level of 2.7 percent.

The reason for export stagnation is (1) Even if U.S. interest rates were to drop, because of deeply rooted latent inflation causes, they will generally remain at a high level. (2) The accumulated debt problems of the developing and underdeveloped countries which have worsened over the past 5 to 7 years will offer no alternative but to follow a retrenchment type of economic management. This means that the world economy cannot escape from a holding pattern in 1983. The effects of a retrenchment fiscal policy will mean: (1) That it will be impossible to structure a meaningful economic policy, and it will not be possible for the industrial sector to take a more favorable view; (2) National bond issues will continue to be floated in great volume and long range interest rates will remain high; (3) The household tax burden will be greatly increased.

Both Sumitomo Bank and Dai-Ichi Kangyo Bank forecast that individual consumer growth will be in the 2 percent range, industrial capital investments will increase about .8 percent increase or zero; public sector investment will be a minus .6 to .9 percent increase or low in all cases. Even within this group,

inventory investments are forecast at minus 4.9 percent to minus 20.1 percent. Their view that the industrial sector will not recoup is in direct contrast to the bullish observations of Mitsubishi Research and shows the different characteristics of views.

Even the Kyoto Economic Research estimate of 2.7 percent real growth rate is not as severe as the Dai-Ichi Kangyo Bank or Sumitomo Bank forecasts but they do look gravely on the protectionist tendencies of the advanced industrial countries and the effect of fiscal retrenchment policies and believe that economic recovery in 1983 cannot be counted on. Their views are as follows. Externally, "whether the U.S. economy recovers or not the export situation as far as Japan is concerned is severe. The Reagan administration will undoubtedly establish measures for import controls to prevent sudden import increases to meet increased demand due to economic recovery"; and domestically "the 1983 budget will be of a super retrenchment type and fiscal reconstruction and deflation will take the spotlight. The official discount rate will drop to 4.0 percent so the medium and small enterprises which have experienced slow growth will see some rebounding in capital investment, but on the reverse side the capital investments of export industries will be diminished. Individual consumption will be stagnate due to the postponement of the income tax decrease."

Divided into semiannual periods the real growth rate for more than the next 1½ years is estimated to be at the slow rate of around 3 percent. Specifically, the first half of 1983 at 2.6 percent, the second half at 3.4 percent and in 1984 in the first half only 3 percent. The optimum real growth rate for the Japanese economy in order to maintain profit levels and to absorb the new labor force, based on the era of medium growth after the oil crisis, is said to be 4 percent. This portends a severe situation.

The Accuracy of the Forecasts

Should the 1983 economy be viewed as strong or weak? Of course a flippant assessment is uncalled for and it must be left to the reader to decide. This is because in all aspects of this problem both externally with respect to exports, and domestically with respect to individual consumerism, capital investments and the government's economic countermeasures, the views are split into bull and bear observations. However, in recent years the beginning of the year projections on the economy have proven that in a great many cases the bullish estimates have been off the mark. (see Chart 1)

Of course since the economy is a living thing it can be said that economic projections and planning papers are destined to be wrong. This is because when the government's major investigative organs and financial bodies publish their economic forecasts at the beginning of the year, those who shoulder the economy, the industrialists and the individual consumer, use these as a basis for embarking on a totally new course. In controlled economies or planned economies the situation may be different, but in a free economy it would be odd to find that economic projects are on target.

In addition, each of the projections have the built in biases and characteristics of those making the projections. The government from its political

Chart 1. Economic Outlook for 1983 of the Government and Major Investigative Bodies

(Note) Unit: Percent against previous year, GNP and details are in real terms. Yen rate is yearly average. Official discount rate is lowest recent level. - is for no reports available.

		1 三菱総合研究所	政 2 府	3 国民経済研究協会	4 大和証券経済研究所	5 野村総合研究所	6 日興リサーチセンター	7 京都経済研究所	8 日本経済研究センター	9 三和銀行	10 和光経済研究所	11 日本生命	電力中央12 経済研究所	13 住友銀行	14 第一勧業銀行
15	国民総生産	4.1	3.4	3.4	3.4	3.3	2.8	2.7	2.7	2.7	2.7	2.6	2.3	2.0	1.8
	(同57年度実績見通し)	(3.0)	(3.1)	(3.3)	(2.5)	(3.0)	(3.0)	(2.6)	(2.6)	(2.9)	(2.7)	(2.9)	(2.4)	(2.7)	(2.7)
16	民間最終消費支出	3.7	3.9	3.5	3.0	2.9	3.0	2.1	3.2	2.8	3.5	2.8	2.8	2.6	2.1
	民間住宅建設	2.3	2.6	4.5	5.0	2.2	2.4	3.0	▲0.6	3.0	4.0	4.2	1.2	0.4	0.8
	民間設備投資	3.3	2.9	2.7	2.3	4.3	3.7	2.8	0.9	1.1	▲0.5	2.4	0.2	0.0	0.8
	民間在庫投資	13.9	—	4.6	1.4	17.5	31.2	19.3	14.0	9.5	32.1	29.0	▲37.0	▲20.1	▲4.9
	政府最終消費支出	2.3	—	—	2.3	2.2	2.1	2.1	3.1	—	1.0	0.3	0.3	0.7	2.4
	政府固定資本形成	3.6	—	0.8	3.2	2.6	▲2.3	▲0.1	1.8	▲1.3	3.7	▲3.3		0.9	▲0.6
	海外経常余剰	14.7	—	13.9	5.9	4.4	4.8	11.5	4.9	—	2.6	—	15.5	—	6.3
	輸出等	0.9	—	5.4	2.5	4.0	4.3	1.5	2.8	4.9	1.7	4.3	4.2	3.4	1.8
	輸入等 (控除)	▲4.4	—	1.8	▲0.8	3.8	4.0	▲2.7	1.9	3.3	1.4	2.3	▲0.3	1.4	▲0.1
17	鉱工業生産	5.0	4.4	4.0	3.5	4.3	3.6	3.0	1.1	3.4	4.0	2.9	1.5	1.4	0.4
18	卸売物価	2.2	1.1	1.0	▲0.4	▲0.2	0.9	0.4	▲0.3	▲1.8	0.1	1.0	▲0.5	0.8	0.1
	消費者物価	4.4	3.3	1.8	3.2	3.3	2.9	2.8	2.7	2.4	2.4	3.5	2.3	2.6	2.5
19	貿易収支 (億ドル)	255	200	254	206	235	266	343	212	259	209	269	—	255	260
	経常収支 (億ドル)	141	90	138	86	122	143	221	83	131	71	133	110	115	150
	円レート (1ドル=円)	—	—	235	226	225	230	238	229	—	238	—	241	—	246
20	公定歩合	4.75	—	3.50	4.75	4台	5.00	4.00	4.50	—	5.0~4.5	—	5.50	—	5.50
21	春闘賃上げ率	5.5	—	4.7	—	5.0	5台	—	5.6	5.0弱	5.0	—	4.2	—	5.0

Key:

1. Mitsui Research
2. Government
3. Kokumin Economic Research
4. Daiwa Economic Research
5. Nomura Research
6. Nikko Research Center
7. Kyoto Economic Research
8. Nikkei Research
9. Sanwa Bank
10. Wako Economic Research
11. Nippon Life Insurance
12. Electrical Power Central Research
13. Sumitomo Bank
14. Dai-Ichi Kangyo Bank
15. GNP (and estimate for 1982)
16. Ultimate consumer expenditures
    Housing starts
    Private capital investments
    Private inventory investments
    Ultimate Government expenditures
    Government fixed assets
16. [continued]
    Overseas accounts surplus
    Exports
    Imports
17. Industrial output
18. Wholesale index
    Consumer price index
19. Trade revenues (100 millions)
    Ordinary revenues (100 millions)
    Yen rate to $1
20. Official discount rate
21. Spring wage hike rate

point of view and need for a budget which allows for increasing tax revenues tends toward a higher growth rate estimate; the securities businesses because of the nature of their business tend toward a brighter outlook in their estimates; while the banks take a very cautious view.

Whatever may be the case, what must not be forgotten here is that when past estimates and actual results are compared during the high growth era the bullish projections were generally more on target and the actual results were even higher than the government's forecasts. Since the oil shock period and entry into the moderate growth period, particularly in the last several years, the bearish forecasts have been more on target. The actual results also have been lower than the government forecasts. (see Chart 1)

For instance if we compare the government's projections and actual growth rates during the 4-year period between 1979-82 we find that in 1979 actual growth was 5.3 percent against the government's 6 percent projection. In 1980 it was 3.7 percent against a projected 4.8 percent (values before adjustment of the national income). In 1981 the growth rate was 2.8 percent against a projected 5.3 percent and in 1982 the estimate is 3.1 percent against the government's projection of 5.2 percent. The private sector investigative organs and financial institutions projections were, during this period, aligned with the bullish view of the government so their projections were off the mark as well.

During the high growth era both industry and the consumer were constantly optimistic and maintained a positive stance. Because of this, in the event the government made a 5 percent forecast at the beginning of the year both industry and consumer looked ahead and intensified their respective activities and as a result attained a high rate of growth reaching the 7-8 percent level.

Now, since entering the low growth era both elements have become conservative so even if the government were to make a forecast of 5 percent growth they tend to look upon this as the maximum growth target and make only cautious moves which in a great many cases can be said translates into a low growth rate of 2-3 percent. From this it can be said that in the case of the 1983 estimates the bearish projections are likely to be more on target.

Cloudiness Increases Among Industry and Consumer

Actually, the 1983 government budget proposal included a real drop in expenditures of 3.1 percent compared to last year which attests to its being a super retrenchment program. On the other hand, it has called for a 1 trillion yen increase in the national debt over and above history's largest debt level of 1982 to a total of 13.345 trillion yen. Included in this is nearly 7 trillion yen of deficit bond issue. As the second interim adjustment in the administrative reform plan gradually phases out, fiscal reconstruction now completely breaks down. In 1984 and beyond the question of whether there will be either tax increases or inflation is an uncertainty that is spreading among industry and consumer alike.

The anticipated mid-term reviews of the economic and fiscal reconstruction plans were effected by the House of Councilors elections and double election

campaigns and now appear to be heading toward an inconclusive demise without having made any definite numerical or detailed stipulations. There is no evidence also of any forthright measures being undertaken to cope with the problems of trade friction which results from the question of agricultural products and freeing of the market place. The 1983 management receipts show that exports will not increase and imports will decrease even more resulting in about a $15 billion surplus according to most forecasters' expectations.

Industry managers are unable to understand what the economic policies of the Nakasone administration are and as a result feel more and more in the dark. The result is that they are taking a pessimistic stance. The consumers are the same. With tax decreases postponed again in 1983, and with spring wage increases appearing to stabilize at around 5 percent, with unemployment increasing and with talk rampant that social security is about to go broke, their first thought is to prepare for the future, so even though prices may be said to be stable it is not possible for the consumer to take a forward looking view.

If we look at the "Actual State of People's Livelihood" published recently by the Ministry of Health and Welfare we see that in the next 3-year period 42.6 percent of the households reported that "there will be no change in present conditions," 54.1 percent reported "things will get worse" and only 3.3 percent felt that "life would get better." This amply explains the situation.

Both industry and consumer stances are expected to continue to be cautious and the economy will be in the 2 percent range forecast by the government for 1983. The recovery of the economy is seen as being beyond 1984. At the very least, the first half of 1983 is seen as being very severe.

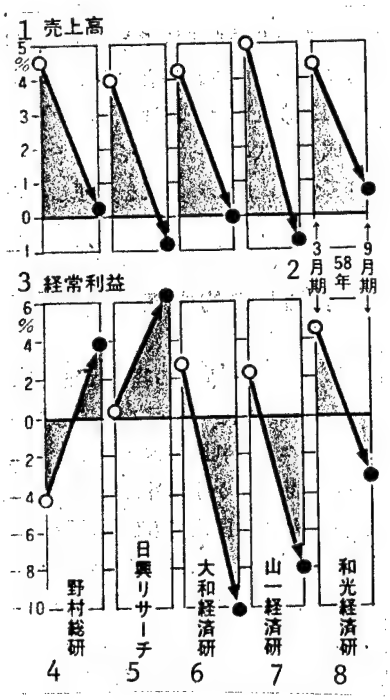
Nomura Research and other securities related research facilities are currently making their 1983 March-September forecasts for individual receipts (semiannual base-companies listed in the first section of the Tokyo Stock Exchange) but all of them appear to be making the same severe judgments.

Industry revenues in terms of management profits dropped nearly 20 percent in the third quarter of 1981 and compared to the peak profit period of the third quarter of 1980 represents a drop of about 30 percent. Following this, all of the forecasts for the 1983 March period are showing nearly flat predictions of 2 percent to 4 percent increases in revenues. (see Chart 3) In the following September period the forecasts are spread from an increase of 6 percent to a decrease of 10 percent in revenues.

This is the result of different views on the yen market rate which has a tremendous influence on the revenues of industry and basically the forecast overall is for a "plateau" effect on the economy.

The revenue forecasts for the various industries are compilations of individual industries which have been totaled. From this micro standpoint it is also proven that the severe economic conditions, which do not meet the optimum requirements for growth, will continue for some time into the future.

Outlook for Industrial Revenues
(All industrial sector--Half yearly basis--1st half)



Key:
1. Sales
2. 1983
3. Ordinary profits
4. Nomura Research
5. Nikko Research
6. Daiwa Economic Research
7. Yamaichi Economic Research
8. Wako Economic Research

9980
CSO: 4105/099

ECONOMIC

TAKESHITA REAFFIRMS POSITION ON VALUE-ADDED TAX

OW091237 Tokyo KYODO in English 0744 GMT 9 Feb 83

[Text] Tokyo, 9 Feb (KYODO)--The government is not considering introducing soon a general excise tax as suggested by Finance Minister Noboru Takeshita, the chief government spokesman indicated Wednesday.

Chief Cabinet Secretary Masaharu Gotoda told reporters it is not true the government is discussing the question of reducing the proportion of the income tax and other direct taxes in favor of indirect ones such as the commodity tax.

Takeshita said earlier this week "time is ripe" for reviewing the ratio between direct and indirect taxes.

His remark was understood to mean the introduction next year of a large-scale indirect tax like the value-added tax in the European common market, triggering shapr reaction among some election-conscious government and ruling party leaders fearing repulsion from taxpayers.

The proposed new tax, levied at every stage of goods distribution from factory to retailer, would be eventually borne by consumers.

Gotoda said the suggested change in the direct-to-indirect tax ratio is a matter to be considered as a long-term problem to be tackled in streamlining the government's deficit-ridden finances.

"We are not discussing it at present (for early enforcement," he said.

CSO: 4100/121

ECONOMIC

PROSPECTS FOR 1982-1983 STEEL EXPORTS TO MIDDLE EAST

Tokyo NRI SEARCH in Japanese Dec 82 p 39

[Text] Our steel exports to the following five countries--Iran, Iraq, Saudi Arabia, Kuwait and UAE--were favorable in 1982. When we look separately at the first and the second half of 1982, especially in the first half of the year, Saudi Arabia's demand has increased suddenly and, coincidentally met the makers' export directions, bar steel export to Saudi Arabia has shown a phenomenal growth. Exports mainly of bar steel to Kuwait and UAE were also comparatively favorable. On the other hand, because of the "link trade with oil" policy with Iran our business was not profitable and exports were unavoidably sluggish. Based in part on stepping up a project we were able to hold exports to Iraq at a regulated level.

As for the second half of the year, there was a large decrease in bar steel exports to Saudi Arabia during the months of October to December due to surplus stock. Exports to Kuwait and UAE also decreased somewhat because of inventory adjustments. Due to increased competition from Europe and Brazil, exports to Iraq mainly of bar steel also decreased considerably. As for Iran, because of the conclusion of a long-term oil agreement we were approached with a large-size transaction centered around steel sheet and it is expected that there will be a large increase in exports. Our total steel export to these five countries in the second half of 1982 is about 2.6 million tons. An increase of about 9 percent from the first half of 1982 is expected.

Our steel export outlook for 1983 to the five countries individually is as follows:

Iran: Unspecified increases are expected in plate steel, hot and cold rolled sheet steel, and galvanized iron sheets. A recovery of welded steel pipe is expected in connection with gas pipeline construction; a total of 1.31 million tons, a 72 percent increase over last year.

Iraq: No marked fluctuation in bar steel due to intensified competition. Decrease in shaped steel expected. Similar to Iran, increase in steel pipe is expected in connection with the gas pipeline; a total of 400,000 tons.

Saudi Arabia: Large decrease in the main steel product, bar steel, due to weak demand, inventory adjustments and development of self-sufficiency. On the other

hand some increase in furnace-produced hot and cold rolled sheets are expected; a total of 2.16 million tons, about a 20 percent decrease over last year.

Kuwait: Increase mainly in bar steel. However, stagnation of demand is expected due to stock adjustment; a total of 670,000 tons, an increase of 10 percent last year.

UAE: No fluctuation in main product, bar steel; a total of 420,000 tons.

Table 1. Outlook of Steel Import From Five Countries

(万 M.T.)

暦 (1) 年	(2) イラン	(3) イラク	(4) サウジ	(5) クウェート	UAE	(7) 5カ国計
1978	459	87	211	36	66	839
80	253	168	323	56	65	865
81	236	158	353	70	72	889
(8) 82(見込み)	320	134	400	70	71	995
(9) 83(見通し)	398	149	345	77	71	1.040
82／81(%)	135.6	84.8	113.3	100.0	98.6	111.9
83／82(%)	124.4	111.2	86.3	110.0	100.0	104.5

Key:
(1) Year
(2) Iran
(3) Iraq
(4) Saudi Arabia
(5) Kuwait
(6) (by 10,000)
(7) Total
(8) (expected)
(9) (outlook)

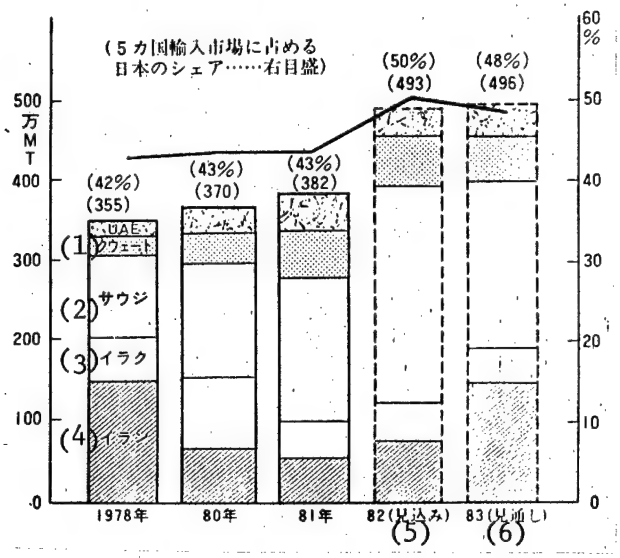
Table 2. Japanese Outlook of Steel Export to Five Countries

(万 M.T.)

暦 (1) 年	(2) イラン	(3) イラク	(4) サウジ	(5) クウェート	UAE	(7) 5カ国計
1978	165	36	106	23	25	355
80	75	70	146	37	40	370
81	50	44	185	60	43	382
(8) 82(見込み)	76	39	275	61	42	493
(9) 上期	15	25	141	33	22	236
(10) 下期	61	14	134	28	20	257
(11) 83(見通し)	131	40	216	67	42	496
82／81(%)	152.0	88.6	148.6	101.7	97.7	129.1
83／82(%)	172.4	102.6	78.5	109.8	100.0	100.6

Key:
(1) Year
(2) Iran
(3) Iraq
(4) Saudi Arabia
(5) Kuwait
(6) (by 10,000)
(7) Total
(8) (expected)
(9) early
(10) latter
(11) (outlook)

Table 3. Changes in the Japanese Steel Export to Five Countries (Japanese Share in the Import Market to the Five Countries)



Key:
(1) Kuwait
(2) Saudi Arabia
(3) Iraq
(4) Iran
(5) (expected)
(6) (outlook)

Table 4. Characteristics of the 1983 Outlook of Japanese Steel Export to Five Countries (compared to 1982)

By country	Main product increase	Main product decrease	No fluctuation product
Iran	●Medium-plate steel ●Hot rolled ●Cold rolled sheet steel galvanized sheet		Shaped steel
Iraq	Pipe	●Shaped steel	Bar steel
Saudi Arabia	Wide band steel tinplate	Shaped steel ●Bar steel Medium-plate steel Pipe	Galvanized steel
Kuwait	Bar steel Medium-plate steel Galvanized sheet	Shaped steel	Hot rolled sheet steel pipe
UAE			Bar steel pipe
Combined	●Medium-plate steel ●Hot rolled sheet steel ●Cold rolled sheet steel ●Galvanized sheet	Shaped steel ●Bar steel	Pipe

●indicates marked changes

9509
CSO: 4105/085

ECONOMIC

JAPAN TO BENEFIT MOST FROM CRUDE OIL PRICE CUT

OW171347 Tokyo KYODO in English 1248 GMT 17 Feb 83

[Text] Tokyo, 17 Feb (KYODO)--Japan will benefit most from the impending reduction in crude oil prices with such a move probably giving the nation much-needed momentum for economic growth sustained primarily by domestic demand.

This is the consensus among several private research bodies and the Economic Research Institute of the Economic Planning Agency (EPA), which have come up with forecasts of the possible impact of a crude oil price cut.

All of them share the view that a price reduction by the oil producing nations will have the salutary effects of expanding the world economy and more or less stabilizing prices.

This is especially true for Japan, which relies upon imported petroleum for an incomparably large portion of its energy needs, they say.

They see little possibility of an "oil shock in reverse"--chain reaction of precipitate falls in oil prices, although they do not rule out such destabilizing factors as an international debt crisis and contraction of exports to oil-producing nations.

However, they predict that a drop in oil bills will benefit developed nations and nonoil-producing developing countries, favorably affecting the world economy and prices in general.

A decrease in the price of crude oil, Japan's No 1 import item, will shrink the country's overall import value.

The EPA's Economic Research Institute, assuming a 10 percent cut in the prices of crude, predicts drops of 0.62 percent and 0.12 percent, respectively. In Japan's imports and exports in the initial year (in real terms).

In the second year, it says, both exports and imports will increase--by 0.01 percent and 1.3 percent, respectively.

However, since domestic prices will become stabilized, Japan's real economic growth will quicken by 0.23 percent in the first year and 0.62 percent in the second year in real terms.

The institute also predicts Japan's inflation rate will drop by 1.36 percent in the first year and 2.59 percent in the second year.

The Nikko Research Center, a research arm of Nikko Securities Co., a leading stock brokerage firm, forecasts an increase of only 0.1 percent in the real growth of the Japanese economy on the assumption that crude oil prices will be lowered by dollar 4 a barrel.

However, it says, if the Bank of Japan's official discount rate is reduced by half a percentage point economic growth will accelerate by 0.3 percent.

The center also predicts a drop of 0.3 to 0.4 percent in Japan's inflation.

Regarding external trade, it forecasts a surplus of dollar 3.4 to 4 billion.

Sumitomo Bank, of Osaka, predicts, however, that crude oil price cuts will have no appreciable effect on Japan's economic growth on the grounds that favorable effects will be offset by adverse effects. Sumitomo also assumes a dollar 4 cut in crude oil prices.

The bank foresees a 1.7 percent drop in exports and a 0.1 percent rise in imports as well as a 0.5 percent slowdown in inflation.

All three research bodies say that the reduction of crude oil prices will bring about appreciation of the yen in relation to the dollar.

The EPA's Economic Research Institute predicts a rise of 1.41 percent in the yen's value in the initial year and a 5.08 percent increase in the second year.

Nikko Research Center also forecasts the yen's appreciation while Sumitomo Bank forecasts the Japanese currency will appreciate to yen 218 to the dollar (yen 226 in the absence of an oil price cut).

The three outfits see little danger of the oil-producing countries withdrawing their investment from other nations to make up for balance-of-payments deficits resulting from oil price reduction, if the price cut is limited to around dollar 4.

In this respect, they are particularly optimistic about Japan because of favorable fundamentals of the Japanese economy.

CSO: 4100/121

MANAGEMENT STRATEGY IN FOODSTUFF INDUSTRY OUTLINED

Tokyo KEIEI KONSARUTANTO in Japanese Dec 82 pp 52-57

[Article by Genichi Nakamura: "Present Situations and Problems of Management Strategies in the Japanese Foodstuffs Industry"]

[Text] A. In the Beginning

The first quarter [of the decade] of the 1980's (January 1980-June 1982) has passed, and the curtain on the second quarter [of the decade] has risen. As clearly indicated by the experience of Japanese businessmen, the environmental changes in these four quarters of the 1980's were radical and speedy and quite comparable to the decade of the 1970's. Japan's growth stayed below the 5-percent level, despite the fact that it was the highest among the advanced nations. Developments in international politics and on the economic scene all raised havoc with Japanese industry, and this became the norm.

Within the atmosphere of low growth and turbulence, Japanese industry found it difficult to remain solvent, much less try to find a solution to growth. Reflecting this new reality, management strategy changed radically in order to remain alive and grow.

The same type of difficult changes was also noted in a number of other industries. Particularly with respect to industries under the aegis of the Ministry of International Trade and Industry, a great many were subject to two structural recessions in the period from the latter half of the 1970's to now. They were also caught in the problem of trade friction between Japan and the United States and between Japan and Europe, and the development of management strategy was dramatic, inasmuch as the life and growth of industries were riding on the outcome.

In comparison, while the level of tension and urgency were relatively low, and while there was a certain general timing delay, the foodstuffs industries, under the aegis of the Ministry of Agriculture, Forestry, and Fisheries, are gradually beginning to experience dramatic developments in their industry.

This manuscript will consider the management strategies of various representative food industries in Japan, and in particular their recent difficult changes, in Section B, below. Specifically, this manuscript will analyze the industry's recent environment--particularly its important special characteristics. In C,

we will consider the basic blueprints for the management strategy of several representative industries. In D, specific management strategies of representative industries will be introduced and discussed.

B. Analysis of the Industrial Environment

Five important characteristics will be selected from the recent environment of the Japanese foodstuffs industry, and their impact will be analyzed.

1. Permanence of a Low-Growth Economy

As described in Section A, Japan's economic growth stabilized at 5 percent during the first quarter of the 1980s. The dulling of the macro growth rate naturally means a dulling of the micro market growth rate.

Therefore, industry was forced not only to rely on market permeation strategy by putting existing products into the existing market but also to resort to a strategy of developing new products and markets as well as selling new products to new markets.

In order to develop this type of growth strategy in a resources-restricted situation, it is necessary to reallocate to new products and new businesses the resources already slated for existing products and industries. As a result, there is an increase in businesses which will commence at the same time with counterstrategies.

As one means of developing this type of growth strategy, the foodstuff industry fought desperately for a new technology development strategy. When one's own company could not muster new technology, they would resort to an alternative strategy--affiliation--and through the infusion of technology from outside sources continue their own development.

When new product development strategy and diversified development become positive, big industry sometimes attempts to invade the purview of operations or products of small and medium enterprises, and there are occasions where friction occurs between them. Examples of this type of friction can be found in Suntory's entry into Shochuu production, and in the large instant noodle makers' (Shimadaya Honten, Toyo Suisan, Myojo Foods) entry into the fresh noodle business.

2. Strengthening of Protectionism Worldwide

Among the important characteristics of the first quarter of the 1980's have been the Japanese-U.S. friction over agricultural and marine products and the growing worldwide protectionism, including within Japan itself, and the international friction increasing therefrom.

Naturally this affects the management strategy of industry at the micro level in the following ways:

First, as we see in the new marketing strategy of Daiei, there is an increase in the import percentage of their products, including food items.

Second, as will be discussed in more detail in Section D, there is the speedup of direct investments overseas as a central leg in [the industry's] internationalization strategy.

Third, there is the continued presence of the 200-mile territorial limit problem, which was bandied about by journalists several years ago. As evidenced by the withdrawal of Nichiro Fisheries and Hoko Marine Products from the octopus and squid fishing grounds of Mauritania, the impact of maritime products companies in their attempts at a resources procurement strategy is severe. As one countermeasure, several marine products companies have hurriedly begun downstream diversification strategy planning.

3. Progress in Technological Innovations

Another important characteristic during this period is the difference in the type of technological progress compared to the 1970's. If we were to call this compound or advanced technology, this technical revolution, following along the lines of part 1, will impact along several fronts on the foodstuffs industry and its environs, as follows:

First, the two major basic technologies supporting the food industry--fermentation and synthesis--have many areas in common with the chemical, pharmaceutical, and cosmetics industries, so there is a move among elements of these industries to enter into new activity development strategy together.

Second, in order to speed up technical development strategy, there is an increase among food-related companies to form cooperative strategies with other companies.

Third, there is an increase in food companies' attempting to utilize the results of their technical development strategy toward product-distinguishing and spinoff strategies. An example of product distinguishing is found in Show Brand Dairy Industries and its sales of ice cream in capsules, utilizing their encapsulation techniques. An example of spinoff is the sale by Kirin Beer of its empty can inspection system.

4. Advent of an Affluent Society in Earnest

Another important characteristic of this period is the impact on various facets of society due to the advent in society of an affluence that is lasting.

First, there is the arrival of the society of the aged. This will provide a positive impact on and increase the demand for medical products. This is the basic concept behind the Meiji Confectionery Company's diversification strategy, which has put them into pharmaceuticals.

Second, related to the first is the boom in health foods and the Japanese food boom in the United States. An example of the first is the intensification of competition in the field of soybeans. An example of the latter is the entry into Japan of U.S. fast-foods facilities and the entry into the United States of Japanese food products. Furthermore, low sodium and low fat foods, bolstered

by the U.S. Academy of Science report of 16 June 1982, have come to be the central core of health foods.

Third, as is generally said, "As a country becomes more affluent, the people seek fewer sweets"; our people are getting away from sweets in their diet. This is one of the reasons for the sluggishness of the confectionery industry.

Fourth is the rapid progress of consumers' tastes toward variety, high quality, and Occidental foods. The success of Myojo Food Products' high-quality Western-style noodles is an example.

5. The Permeation of Changes in the Sense of Values

Among several generations there is a permeation of changes in the sense of values, and this affects the marketing strategy of the food industry in the following ways:

First, there is a trend toward both husbands and wives working. This is impacting in a positive fashion the growth of the fast-foods industry, the processed foods industry, and delicatessens.

Second, there is an awakening among middle-aged housewives of an inclination toward recreation. The boom in tennis and group singing impacts similarly as in the first paragraph.

Third, there is a change in the sense of values among the young. In the advertising industry, for instance, the use of black for packaging was heretofore considered taboo. However, they say there are several food items which are popular among the young people, appealing to a changed perception of values.

Fourth, there is a value sense among high school students to dislike lunch boxes. This has given a positive impact to the fast-foods establishments.

Fifth, there is a change in the sense of values implanted in preschoolers by television commercials. In their case they relate to the commercials of television programs they like, and in many cases they apply pressure on their mothers to place on the table the foods that these commercials push. In this situation it is necessary for the food companies to target their marketing efforts to both the child as the maker of the purchase decision and to the mother who actually makes the purchase.

C. The Basic Structure of the Management Strategy

As related in Section A, while the tension level is lower than in those industries under the aegis of the Ministry of International Trade and Industry, and while there is not as much time pressure involved, the development of a management strategy to stay alive and grow is gradually intensifying.

That basic structure is three-dimensional, as described in Chart 1: product, enterprise and enterprise space, and technology. In other words, in the first dimension--i.e., products and operations--we can see progress from existing

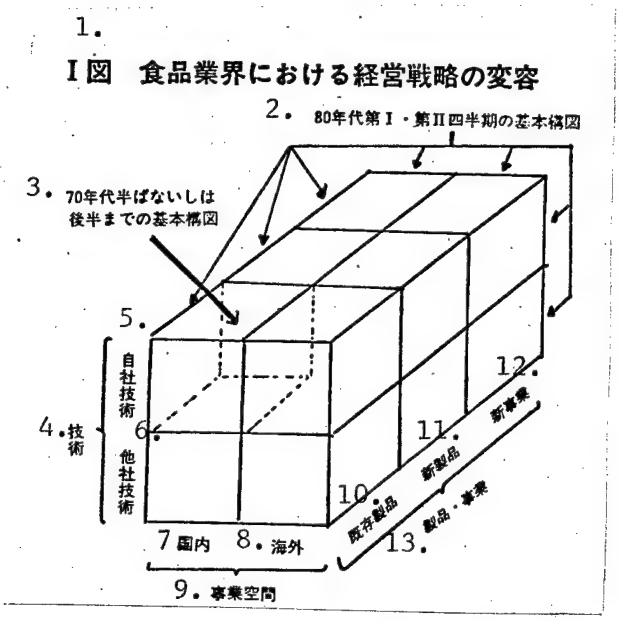


Chart I. Changes of Management Strategies in the Foodstuffs Industry

Key:
1. [Title]
2. Basic structure in the first and second quarters of the 1980's
3. Basic structure up to the middle or the latter half of the 1970's
4. Technology
5. In-house development
6. Technologies developed elsewhere
7. Domestic
8. Overseas
9. Enterprise Space
10. Existing products
11. New products
12. New enterprises
13. Products, enterprises

products to new products to diversification to new enterprises. In the second, enterprise space, we see progress from the domestic space to overseas. In the third, technology, we see the progress from in-house development to utilization of the technologies developed elsewhere.

Explained in terms of the chart, we can say that up to the middle or latter half of the 1970's, Japan's foodstuffs industry could expect to live and grow based on operations only in the domestic market with existing products and technology using only their own existing in-house capabilities. In other words it was able to operate within the narrow confines of only a segment of the entire three dimensions outlined heretofore.

In contrast, during the first and second quarters of the 1980's, much progress has occurred in all dimensions of this environment. Therefore it becomes necessary to draft a new basic structural plan for existing and growing on a scale much bigger than the 3 x 2 x 2 = 12 shown in the chart. For instance, if all of the 12 elements in the small 12-element plan heretofore were to be applicable, then we could say that the environment strategy has already expanded to 12 times.

Suntory's spectacular management strategy transfiguration is a classic example. This company, in the products and enterprise dimension, not only developed high-quality ice cream for its major food service division but also diversified into new enterprises such as pharmaceuticals and cultural enterprises domestically and to oil exploration and development in the United States. Next, in the enterprise dimension it is engaged in a variety of diversified operations in the United States. Additionally, in the technical dimension--for instance, in its new products development strategy--Suntory imported technology from Haagen-Dasz of the United States to enter the high-quality ice cream business, and it is cooperating with Takanashi Dairy Industries to produce and market ice cream. In the context of its diversification into the pharmaceutical field, it is planning to utilize fully, through a cooperative strategy, the sales power and technology levels of Riken Chemical Industries.

In the next section we shall explore, by types of strategies, some specific cases of management strategies of representative foodstuff companies.

D. Specific Development of Management Strategies

1. Company-wide Strategy and Group Strategy

The first classification of management strategy is company-wide strategy and partial strategy. When company strategy is extended it becomes group strategy. With regard to partial strategies such as marketing and technical strategies, these will be discussed in parts 2 and 3.

Let us look at the new characteristics of company-wide and group strategies.

a. Writing scenario for integration.

First, there is a trend toward building a scenario at all levels of operation and product groups for total integration at some point in the future.

For instance, a good example of scenario building by an industry at the operations level for integration is the case of Meiji Confectionery Industries. This company in May 1982 drafted a 10-year vision which looks to its becoming a "pharmaceutical, food complex industry," and it has allocated sales targets of 41 percent for pharmaceuticals, 11 percent for other food products, and 5 percent for health-related activities to be attained at that point in the future.

Next, Nagatani En Tea Co., Ito Ham, and Prima Ham are good examples of scenario writing at the products group level. Nagatani En is looking to enter "instant food integration" using as the three mainstays laver products for rice gruel,

instant bean paste soup, and powdered products. Ito Ham, after declaring its intention to become an integrated food products manufacturer, has eliminated its name from specialty foods such as ham and sausage. In contrast, Prima Ham is bent on becoming an integrated meat products company, centering on ham, sausage, fresh meat, and processed meat.

b. Development of group strategy through acquisitions.

The second [classification] is group strategy through acquisitions, which ties into the reorganization of the industry itself. For instance, in July 1981, Sanyo Foods took over 60 percent of Ace Cook stock and expanded its position to 20 percent of the market. Also, in October of the same year Yamazakiya Bakery bought out the breadmaking division of Nakamuraya Industries and reportedly has been able to strengthen its base in the metropolitan area.

2. Marketing Strategy

One new marketing strategy characteristic is that when a new food product is popularly accepted in the marketplace, regardless of whether it is a high- or low-volume item, a great many copycat items appear on the market. This is an intensification of the strategy of chasing after the competition.

For instance, NIKKEI SANGYO SHIMBUN reported in its 7, 14, 21 and 28 October 1982 issues on the 10 top-ranking food firms involved in, respectively, fresh noodles, yogurt, soybean cakes, and crab-flavored cakes, and gave their rankings and market-share position. At the same time it described the fierce competition that exists in these industries.

3. New Technology Development Strategy

In part 3 of Section B, some examples of the impact resulting from the technological revolution progress were given. Here, while avoiding duplication, we will introduce and review two new aspects of new technology development strategy.

First, there is the development of new product development strategy which uses new technology development strategy as a medium for its development. For example, based on joint development with Edible Film, Nisshin Flour has been selling "cartoon-printed hotcake mix" since September 1982.

Second, there is the intensification of competition in the race for development of new technology. For example, Nippon Flour imported freezing technology requiring no defrosting in June 1982, and the [firm] has recently begun marketing the first product developed using this technology, "Whipped Cream for Cakes."

However, Daiei Food Processing Industries, which has been involved in state-of-the-art work in the technology of rapid freezing and defrosting, has recently announced a food ingredient named Colantos which makes defrosting unnecessary. Food with Colantos can be used directly out of the freezer, so it can be used in a wide variety of ways from confectionery to noodles. A stiff technology battle between Daiei and Nippon Flour can be expected.

When new technology development competition heats up in this manner, there is a sudden increase in disputes over patents for new products. This tendency is particularly prevalent in the field of fine foods, which are relatively more costly.

One example is the dispute between Snow Brand Dairy Industries and Kewpie over encapsulation (this dispute has recently been settled), while another is the dispute between Uniliver and Meiji Dairy Products over an ice cream and cookie combination manufacturing process.

4. New Product Development Strategy

The second classification under management strategy is growth and withdrawal strategy. With regard to growth strategy, product and market breakdowns were described in part 1 of Section B. Here in parts 4 and 5 we shall look at new product development strategy and diversification strategy and some of their characteristics. Withdrawal strategy will be covered in part 6.

As we have already seen, new product development strategy supported by new technology development competition is following a path of continued intensification. Herein we shall trace five of its new characteristics.

a. Growing thoughts on health foods.

As pointed out in part 4 of Section B, since an affluent society and an elderly society are here to stay, there is a positive impact on health foods, and this will cause the food industry to give more consideration to health foods. For example, as described in part 2, there is the soybean cake, followed by low alcohol sake and low alcohol beer, as well as low calorie fishmeat corned beef.

b. Growing thought regarding diversification.

The stabilizing of an affluent society promotes a widening of the tastes of consumers, so the food companies must give consideration to diversification. For example, various types of yogurt drinks and desserts (Calpis' acidified milk, Takanashi Dairy's Plus-One milk), carbonated drinks (Japan Coca Cola, Japan Pepsi Cola, Sapporo Beer, and Meiji Milk), and compound food products (Lotte's Gumumbo and Nitto Flour's Fry-Mis Coat and Bake), to name a few.

c. Growing thoughts regarding higher quality.

The stabilizing of an affluent society promotes the development of the consumer's palate for higher quality foods, so the food companies respond to this. To name a few examples, there are high-quality instant noodles (Myojo Food Products, Toyo Suisan, Sanyo Shokuhin, and Nisshin Shokuhin) and high-quality ice cream (Suntory and Lotte).

d. Strengthening of concern to break away from reliance on a single product.

Generally during the latter half of the 1970's there were second thoughts about the move in the 1960's toward easygoing ventures such as real estate and

leisure industries, several companies which had been slow to diversify due to their inability to respond to the changes in the environment brought into sharp focus the dangers of overreliance on single-product management systems. This resulted in a rise in full-scale efforts by the food companies to break away from reliance on a single product.

For example, Calpis, in a 3-year program devised in 1982 called "Challenge 1985 Plan," has called for a lowering of Calpis' share of sales from its present 72 percent down to 55 percent. Specifically, beginning in 1982, they have started sales of acidified milk products, carbonated drinks, tropical drinks, and fruit juice mixes. Furthermore they are also said to be considering getting into sales of chilled products.

5. New Enterprise Strategy

As stated in part 3 of Section B, there are many points in fermentation and comounding techniques that the food industry and medical and chemical industries have in common, so there is a movement toward mutual development of a new industrial strategy.

Some representative companies making moves into the food sector are Mitsubishi Chemicals, Takeda Pharmaceuticals, and Kanebo. On the other hand, food companies are branching out into other fields and are represented by such companies as Meiji Confectionery, Suntory, Snow Brand Dairy Industries, and Aujinomoto.

These mutual diversification moves will likely continue into the future.

6. Withdrawal Strategy

As pointed out in part 1 of Section B, with a permanent settling in of a low-growth economy, there is a need for reapportionment of normal resources. For details, refer to this author's paper "Japanese Industries' Withdrawal Strategies--the Present Situation and Problems," which appeared in the May 1982 issue of this magazine. In this article, I will take up only a few of the issues therein which have a close relationship to the food industry.

a. Withdrawal strategies in this sense refers to the ability to foresee within a given life cycle the approaching end of such a cycle before it actually arrives, and the ability to transfer resources to other important areas of activity. For example, Momoya's withdrawal from the meat marinade business, the withdrawal of Toyo Suisan from spaghetti and its entry into the fried noodles field, and House Foods' withdrawal from instant fried noodles and soup to enter into instant ramen noodles can be raised.

b. Full-scale withdrawal from distressed industry sectors.

Full-scale withdrawal from distressed industry sectors is one of the characteristics applicable to the first quarter of the 1980's, but it was an unusual occurrence in the food industry.

One example of such a withdrawal was that of Nitto Flour, which decided to completely withdraw from the flour industry in September 1981. However, it can be assumed that the company will use the resources released as a result of this decision for downstream diversification purposes.

c. Withdrawal aimed at converting production structure.

In order to stay alive in the intense industrial competition of the 1980's, it is necessary to convert from unprofitable to high-profit structuring and strengthen cost competitiveness. For example, Kyokuyo in January 1981 sold its canning operations plant in Hiratsuka and consolidated its capacities in a new plant for frozen foods at Shiogama.

There are other problems that arise from the 200-nautical-mile limit which causes withdrawals, but these will not be discussed in this article.

7. Affiliation Strategy

The third type of economic strategy is the strategy of method or means. In this article I shall discuss affiliation strategy (part 7), takeover strategy (part 8), and spinoff strategy (part 9). First, with respect to affiliation strategy, the following two new trends are noteworthy.

a. Affiliation strategy aimed at bringing in new technology related to development of new products.

This strategy gained very rapidly in the first quarterly period of the 1980's. They include Suntory's tieup with Haagen Dasz and Takanashi Dairy Products. There is also the Marushin Foods tieup with Steinhouse for high-quality ham and Nitto Flour's tieup with Georg Plange for German bread flour mix.

b. Whole company tieup strategy aimed at remaining viable.

Tieups with unrelated business activities in the early 1980's period is another characteristic. For example, in October 1981 Asahi Brewery concluded a general tieup with Asahi Chemicals through the intermediary of the Sumitomo Bank. For Asahi Brewery it meant a means of survival, while to Asahi Chemicals it was a diversification strategy. As a result of the "Let's Drink Asahi Beer" campaign coordinated by Asahi Chemicals, the increase in the market share of Asahi Brewery products in Nobeoka City is a matter that is still fresh in our memories.

8. Takeover Strategy

In part 1, I discussed the examples of group strategy related to the industrial sector reorganization. In this section, I will restrict my discussion to the following three types:

a. Takeover strategy aimed at development of new products.

In June 1981, Snow Brand Dairy Industries took over the Chateau Glower Brewery, thus moving a step from their previous position of import sales to one of production and sales.

b. Takeover strategy aimed at development of new enterprise:

Asahi Brewery in July 1982 merged with and took over the Ebisu Pharmaceuticals Industry. It is said that [Asahi] will get into sales of chilled foods and increase the pharmaceutical and foodstuff divisions that had already been under consideration by Ebisu. Asahi announced its 5-year diversification program in October 1982, and this takeover plays a very important role.

c. Takeover strategy aimed at advancing into the American market.

In July 1981, Daiichiya Bread Co., bought out the Hawaii baking facilities of ITT's Continental Baking. In November 1981, Nakano Vinegar Co. bought American Industry, and in May 1982 the Takara Brewery bought out the Numano Breweries in the United States. In every case, the point of the takeover was to establish an American manufacturing base.

9. Spinoff Strategy

Since 1982 there has been a noticeable increase in spinoff strategy based on the in-house technology developed by food companies. First of all, Kikkoman established the Kikkoman Engineering Co., with several of Kikkoman's in-house technologies as a base. As one of its first activities, it has begun efforts to sell instant sterilization equipment.

Next, Meiji Milk Products Industries has started sales of its continuous whipped creamer developed some 3 years ago. Along with the empty bottle inspection system developed by Kirin Beer and described earlier, these [efforts] are being watched with interest as new technologies developed by the food industries.

10. Strategy for Internationalization

The fourth type of management strategy is domestic and overseas strategy. When direct capital investment involving overseas production is discussed, it is often termed internationalization strategy.

One of the very important characteristics of the early period of the 1980's has been the rapid buildup of internationalization in the food industry. In this article I will discuss only four of these characteristics.

a. Increase in internationalization strategy.

During the 2-1/2 years of the first quarter [of the decade], Nisshin Foods greatly expanded its internationalization strategy in terms of both counterpart countries and products. They formed a joint venture company in West

Germany with Bilgen to form the Bilgen-Nisshin and built a new plant in Brazil. These were all related to burning out their major product, instant noodles, and to their sales. Next, in terms of product types they went into a joint venture with Right-Away Instantly of the United States and formed American Retort. They produce and sell retort [i.e., autoclave-cooked] food products to the U.S. military.

b. Local production of general food products.

Meiji Confectionery is building a local U.S. plant and will begin manufacturing chocolates there in 1983. Heretofore, Japanese food companies in overseas areas were limited to those [companies] making uniquely Japanese products, such as soy sauce and instant noodles; however, with the advent of this activity it can be said that general foods, born in Europe and raised in the United States and Japan, now are the object for production in the United States.

c. Advance of fast foods industries to the United States.

As described previously, because of the booming interest in Japanese foods in the United States, many Japanese fast-food businesses are advancing into the U.S. market.

Sharon (Tokyo, family restaurants), Shinei Foods (Kobe, Japanese-style restaurants), Satsuma Ramen (Fukuoka, a ramen noodle chain), Kitaguni Shoji (Tokyo, a ramen noodle chain), and Takasaki Bento (Takasaki, box-lunch delivery service) are a few examples.

d. Strengthening of efforts to assure supply of resources.

In internationalization aimed at assuring a supply of resources, the case of Suntory's operations in the United States to obtain barrel wood materials is well known. Kirin Beef increased from 50 to 100 percent its holdings in its joint venture in Australia--K.B.B. Molding--and through this means stabilized its source of supply of malt.

E. Conclusion

I have introduced and discussed the management strategies of representative food companies in Japan. I shall attempt now to give conclusions based on the four types of management strategies discussed previously.

Concerning the first type of strategy (company-wide and partial strategy), there is a stabilizing of activities in both company-wide and group-wide strategies for the purpose of remaining solvent. Next, if we look at partial strategies in the narrow sense, particularly with respect to marketing, there is an intensification of copycat competition centering on a few hit items.

In the second category (growth strategy and withdrawal strategy), in the growth sense there is a noticeable expansion in new product development and new enterprise development strategies. In the first instance, there is an attempt to bring about a close association between in-house and other company

products. In the latter there is a movement toward mutual utilization of complementing companies and technologies in the fermentation and processing fields. As for withdrawal strategy, there is a gradually expanding activity in withdrawal designed to aid in facilitating the development of new products and new enterprises.

As for the third area (strategy of methods and means), in all facets of new technology development, affiliation, takeover, or spinoff strategy there is a much greater degree of intensification in the struggle, compared to the past. Naturally, this reflects the developments in the first three categories mentioned above. Particularly, as discussed in Section C, the basic relationship to the three-dimensional situation is moving very positively.

The fourth category (domestic strategy and overseas strategy) is moving rapidly, centering on diversification to the United States and a positive approach toward internationalization.

As an overall conclusion, the basic structures and changes discussed in Section C were specifically proved in Section D.

Finally, to give an overview of the future of the Japanese foodstuffs industry and to bare its problems, they would be as follows: First, in general terms, Japan's food industry and its management strategy are likely to come rapidly under greater and greater pressure to the levels currently sustained by other industries under the aegis of the Ministry of International Trade and Industry. Secondly, in terms of questions for the future, it appears that it would be necessary for the food industry to study and analyze the successes and failures of the other industries, as well as their own in-house production strategies and planning systems.

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CSO: 4105/80

ECONOMIC

AGREEMENT ON VIDEO RECORDER, OTHER EXPORTS TO EC

OW120929 Tokyo KYODO in English 0924 GMT 12 Feb 83

[By Masaru Imai and Shiro Yoneyama]

[Text] Tokyo, 12 Feb (KYODO)--Japan has agreed to hold videotape recorder [VTR] exports to the European Economic Community below 4.55 million this year, it was announced Saturday.

International Trade and Industry Minister Sadanori Yamanaka said Japan also agreed to introduce a floor or minimum export price system to avoid "torrential" VTR shipments to the common market.

The agreement cane in talks between Japanese and EC leaders Saturday. EC Vice Presidents Wilhelm Haferkamp and Etienne Davignon came to Japan for the third quadrilateral conference held in a Tokyo hotel Friday.

In addition, Japan and the EC decided to coordinate efforts to help European VTR makers produce and sell at least 1.2 million units this year.

The Japanese Government agreed to the package of export restraint on VTR's and several other "sensitive" items after winning assurances from the EC that France will terminate its VTR import restrictions and European companies will withdraw a dumping suit filed against Japanese manufacturers.

The 4.55 million VTR's will include about 500,000 to 600,000 chassis kits or semifinished units, MITI officials said.

"It's a touch option but there is hardly any happy solution for both parties," Yamanaka told reporters after striking the deal with Davignon and Haferkamp.

"I am not totally happy but I am satisfied," he added.

After an unsuccessful meeting Thursday, the trade ministers decided to meet again after Friday's quadrilateral conference. The successful second round of talks also led to an agreement for Japan to keep large-sized color TV tubes exports to the EC to less than 900,000 units in 1983.

EC officials said they will explain the package to the Tokyo envoys of EC member countries.

Ministry statistics put Japan's VTR exports last year at 4.35 million units, including 120,000 chassis kits.

Ministry officials said that under the agreement Japan's exports of color TV sets, numerically controlled machinery and automobiles this year will be "moderate."

The Japanese Government also explained its basic policies on exports of light commercial vehicles, forklifts, trucks, motorcycles and quartz watches, and agreed to negotiate with the EC over the so-called "sensitive" items during 1983 if any problems arise.

Tokyo further expressed its readiness to hold consultations with the common market on hi-fi sets if the latter decides to take up the issue.

The two sides agreed to continue consultations on VTR exports in 1984 and 1985, the ministry officials added.

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SCIENCE AND TECHNOLOGY

AUTOMAKERS, GOVERNMENT FAVOR GM-TOYOTA CAR DEAL

OW150439 Tokyo KYODO in English 0421 GMT 15 Feb 83

[Text] Tokyo, 15 Feb (KYODO)--Both Japanese automakers and government Tuesday reacted favorably to Toyota Motors' and General Motors' 12-year agreement to jointly produce subcompact cars in the United States, believing it would help improve Japan-U.S. economic relations. But the makers also believe the co-production is certain to reduce Japan's share of the U.S. auto market, greatly affecting Japanese marketing strategy.

Under the circumstances, such makers as Nissan, Toyo Kogyo and Mitsubishi are being urged to reassess their present policy of exporting assembled cars to the United States, and will soon have to study the possibility of setting up manufacturing units in the country, according to observers.

Japan and the United States agreed last week to continue on Japan's self-restraints in exporting cars at 16.8 million in the current fiscal year, giving rise to prospect for prolonged export control by the U.S. against the expectations of Japanese automakers.

Nissan, Japan's second largest automaker, and other companies have been reluctant to set up production units in the U.S. due to rising production costs and difficulty in settling labor disputes. They expected from the current fiscal year, the U.S. would lift the passenger car exports control.

Shoichiro Toyoda, president of Toyota, told newsmen in Nagoya that his company would reserve the right to sell subcompacts to be co-produced in the U.S., although it is the GM to decide the sales routes and prices.

He also disclosed that there is the possibility that depending on the circumstances, Toyota would sell the subcompacts by itself other than through the sales agents selling GM's Chevrolet.

He also said that if the U.S. market shrank and GM would take delivery of only 150,000 units, there is the possibility that Toyota would take more, but it would not take the same type of cars.

Takashi Ishihara, president of Nissan Motor Co., said the Toyota-GM decision is part of Japanese auto industry's efforts for internationalization.

He expressed the hope that the joint venture would be the starting point for the development of U.S. auto industry and favorably affect the bilateral relations.

While welcoming the joint venture as a symbol of contribution for bilateral economic relations, Toshio Okamoto, president of Isuzu Motors, said there would be no major change in his company's cooperation with GM.

A Ministry of International Trade and Industry spokesman said the agreement would help alleviate the strong protectionist move in the U.S. Congress where the so-called local content bill aimed at restricting foreign car imports has been reinstituted.

Sadanori Yamanaka, minister of International Trade and Industry, told newsmen after a cabinet meeting that he had asked William Brock, U.S. trade representative, to extend help in adjusting with the Antitrust Law, the biggest issue facing the U.S., in his meeting with Brock in Tokyo on Saturday.

This is because the adjustment with the Antitrust Law is very important since the latest tieup concerns the joint venture between top Japanese and U.S. automakers, he added.

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SCIENCE AND TECHNOLOGY

MITI ON INDUSTRIAL PRODUCTION DURING 1982

OW221229 Tokyo KYODO in English 0708 GMT 22 Feb 83

[Text] Tokyo, 22 Feb (KYODO)--Sluggish demand and mounting inventory forced Japan's industrial production in 1982 to settle for the lowest annual growth since 1975, the Ministry of International Trade and Industry (MITI) announced Tuesday.

The output index for last year stood at 148.4 against the 1975 base figure of 100, up only 1.1 percent from 1981 as processing and assembly industries posted a modest increase of 2.2 percent and material industries like steel and petro-chemical dropped 0.6 percent for the third year in a row.

A ministry spokesman said the 1.1 percent rise in production at mines and factories was the lowest since 1975 when there was an 11 percent fall. He cited stagnant demand, a shift in demand pointing to depressed productivity and mounting inventory, among others as factors which discouraged increased output.

Mirroring the global business slump and growing protectionism caused machinery shipments bound for exports to sustain the first annual drop in four years, leading to a 0.1 percent fall in 1982 total shipments to 139.7 the first year-to-year decrease since 1975's 7.5 percent drop.

All domestic shipments but consumer goods suffered across-the-board drops last year, the ministry spokesman reported.

Last year's inventory index came to 112.8, up 0.4 percent due to "a lack of final demands' strength," which prompted inventory of various products to grow further.

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SCIENCE AND TECHNOLOGY

ICEBREAKER FUJI LEAVES ANTARCTIC SEA FOR HOME

OW231207 Tokyo KYODO in English 1028 GMT 23 Feb 83

[Text] Aboard icebreaker Fuji, 23 Feb (KYODO)--The 5,250-ton Japanese icebreaker Fuji left the icy Antarctic Sea Wednesday, carrying home a 34-member wintering team.

The ship is due to arrive at the Tokyo port 21 March. But the team, the 23rd Japanese group to spend the Antarctic winter, will get off the Fuji at Mauritius and fly back from there on 21 March.

The Fuji will steam on from Mauritius to Tokyo via Singapore.

It was the last mission of the ship to carry wintering teams to the Antarctic. It will be replaced by the new vessel, Shirase, from the next season.

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END